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ABSTRACT

Public discussion has never witnessed such a welter of proposals for dealing with problems of higher educational finance--proposals for shifting the burden of financing from the present to the future, from the taxpayer to the student, from aiding the institutions to aiding the students, from aid based on need to vouchers for everyone. At its 1974 annual meeting, the Southern Regional Education Board devoted a major session to consideration of the whole issue of how higher education should be funded. At that meeting, the presentations reproduced in this document prompted considerable dialogue among board members. The presentations included in this document are the following: Financing Higher Education: The Dilemmas and the Debate, by John D. Millett; The National Commission on the Financing of Postsecondary Education: A Critique by Earl F. Cheit; and The National Commission on the Financing of Postsecondary Education: A Review by Ben Lawrence. (Author/PG)

FINANCING POSTSECONDARY EDUCATION

Three Perspectives

Southern Regional Education Board

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August 1974
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FOREWORD

The Southern Regional Education Board is committed to identifying problems which confront postsecondary education in the region, assisting in the search for solutions, and publicizing the designated alternatives. During the past quarter century, Southern higher education has been faced at times with the problems of faculty shortages, the strains of overexpansion in certain disciplines, and waves of student unrest. The issues have varied from time to time, but one problem which has never gone away is the financing of postsecondary education.

Within the past few years, there have been several massive studies concerned with putting colleges and universities on a more equitable and sound financial footing. The Carnegie Commission on Higher Education—just before issuing its final report—released a controversial analysis called *Higher Education: Who Pays? Who Benefits? Who Should Pay?* The most publicized part of that report was a recommendation for increased tuition at public colleges and universities. Another organization which has called for major and even larger tuition hikes is the Committee for Economic Development. Others have entered the debate with similar positions.

Public discussion has never witnessed such a welter of proposals for dealing with problems of higher educational finance—proposals for shifting the burden of financing from the present to the future, from the taxpayer to the student, from aiding the institutions to aiding the students, from aid based on need to vouchers for everyone. These are some of the issues which many educators, economists and political leaders had hoped to see unraveled by the National Commission on the Financing of Postsecondary Education, established under the Higher Education Amendments of 1972 for the purpose of studying alternative methods of financing the post-high school sector of the education enterprise. The Commission was charged with making recommendations, including standard procedures for determining annual per-student costs at the various types of institutions.

At its 1974 annual meeting, the Southern Regional Education Board devoted a major session to consideration of the Commission's report and to the whole issue of how higher education should be funded. At that meeting, the presentations by John Millett, Ben Lawrence and Earl Cheit, reproduced here, prompted considerable dialogue amongst Board members, many of whom suggested that we give their remarks wider distribution.

Winfred L. Godwin, *President*

Southern Regional Education Board

August 1974

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Dr. Millett is Vice President of the Academy for Educational Development and Chancellor Emeritus of the Ohio Board of Regents. In the early Fifties, he was Executive Director of the Association of American Universities' Commission on Financing Higher Education.

Financing Higher Education: The Dilemmas and the Debate

Remarks by

John D. Millett

The real question is not the source of additional income but the relative roles of the three customary sources: government, the student, and philanthropy . . .

The problems of financing higher education have been troublesome throughout the history of the United States since the founding of Harvard University in 1636. The problems are still troublesome, but at least two new dimensions have been added in the past twenty years. One of these new dimensions is the increased concern with financing the access of students to higher education. The other new dimension is the increased concern about the survival of private colleges and universities. My task here is to place the problems of financing higher education in some kind of historical perspective, and at the same time to underline the principal dilemmas which have been presented for solution in the recent debates about this whole complex subject.

I venture upon this task in part because I do have an historical perspective to contribute. It happens that in the years 1949 to 1952, under the auspices of the Association of American Universities and with grants from the Rockefeller Foundation and the Carnegie Corporation of New York, I was director of the first major study of the financing of higher education undertaken after the end of World War II. This study provides a kind of benchmark from which to measure the changes which have taken place in the past twenty-five years.

Let me begin with a few statistics which represent a comparison of the income and expenditure patterns for institutions of higher education for the fiscal years 1950 and 1974. The data for 1950 are taken from my study of financing higer education published in 1952, and the data for 1974 are taken from March 1974 *Management Forum*, a publication of the Academy for Educational Development. I must emphasize that these data refer to the financing of institutions of higher education, that is, colleges and universities, both public and private.

These data do not indicate the financing of students. I regret that the source of my data for 1974 does not permit me to separate the public institutions from the private institutions.

COMPARISON OF

INCOME AND EXPENDITURES INSTITUTIONS OF HIGHER EDUCATION

1950 AND 1974
(Billions of Dollars)

	1950	1974
Income		
Instruction	1.48	21.5
Sponsored Research	0.2	2.3
Public Service	0.2	2.0
Auxiliary Services	0.5	3.7
Student Aid	0.02	1.0
	2.40	30.5
Expenditures		
Instruction	1.44	19.5
Sponsored Research	0.2	2.5
Public Service	0.2	2.3
Auxiliary Services	0.4	3.7
Student Aid	0.06	1.5
	2.30	29.5

Sources of Income

	1950	Percent	1974	Percent
Student Fees	0.6	25	6.5	21
State Governments	0.45	19	11.4	37
Local Governments	0.05	2	1.6	5
Federal Government	0.5	21	3.7	12
Endowment	0.1	4	0.6	2
Gifts	0.1	4	0.7	3
Auxiliary Charges	0.5	21	3.7	12
Other	0.1	4	2.3	8
	2.40	100	30.5	100

There are two very striking facts which emerge from this comparison. One fact is the relative stability between these two dates in the pattern of expenditures. Instruction required about 65 percent of total expenditures in 1950 and about 66 percent of total expenditures in this year, 1974. The outlays for sponsored research and for public service activities had about the same proportions in 1974 as in 1950. The only important shift occurred in the expenditures for auxiliary services and for student aid. From 17 percent of all expenditures, the outlay for auxiliary services had fallen to under 13 percent in 1974, while student aid expenditures had risen from 3 percent to 5 percent of total outlays.

INCOME FROM STUDENT FEES HAS DROPPED

The other important fact is the shift that has taken place in the sources of income for the expenditures of colleges and universities. The proportion of all income derived from student fees has decreased from 25 percent to 21 percent. I believe this change reflects in large measure the shift in enrollment between public and private institutions. In 1950, about 52 percent of all enrollments were in public institutions of higher education, while 48 percent were in private institutions. In the autumn of 1973 at the beginning of this current academic year, the proportional distribution of enrollment was about 76 percent public and 24 percent private. Along with this enrollment shift has been a substantial increase in state government support of higher educational institutions, from around 19 percent to some 37 percent. Local governments also have increased the proportion of the total income which they provide.

On the other hand, there has been a substantial decline in the proportion of income obtained from the federal government. Actually, this circumstance results in part from a peculiarity of federal financial practice. In 1950 there were large numbers of veterans from World War II enrolled on our campuses, and the tuition charges to these veterans were paid directly by the federal government. Actually, three-fifths of all federal government payments to institutions of higher education in 1950 were on behalf of veterans of World War II. Beginning with the benefits for the veterans of the Korean War, the federal government halted its previous practice. Today the federal government pays educational benefits to veterans and to survivors under the social security system, but these benefits are paid directly to individuals and not to institutions. I would also like to point out that although in terms of dollars the federal government contribution to institutions was some seven times greater in 1974 than in 1950, the contribution of state governments was some 20 times greater in 1974 than in 1950. The other shifts in sources of income are clearly indicated by the table and require no additional comment.

With these data by way of background, I want briefly to review four major issues which seem to me to present the basic questions which must be faced in the near future by those who operate and those who support the higher education endeavor in this country. These four issues have to do with the costs of higher education, the relative pricing of public and private institutions, the choice between financing institutions or financing students, and the possibility of further shifts in the sources of income for colleges and universities.

The Carnegie Commission on Higher Education gave major attention to the problem of higher education costs in its report of June 1972 entitled *The More Effective Use of Resources.* The Commission estimated current fund expenditures of 25 billion dollars as of 1971. If the expenditure trends of the 1960's were to be continued until 1981, the Commission reported that current fund expenditures by that year would rise to 51 billion dollars of constant purchasing power. The Commission suggested various actions which would hold this expansion of expenditure to a total of 41 rather than a total of 51 billion dollars.

The actions proposed by the Carnegie Commission included certain reductions in enrollment, a halt in the authorization of any new Ph.D. programs along with the consolidation of some existing programs, the establishment of a minimum effective enrollment size for institutions and for departments, a "cautious" increase in the student-faculty ratio, some further management improvements, and a slow down in the real increase in faculty salaries. In making these suggestions I believe the Carnegie Commission should have made certain sharp distinctions about their relative application to public and private institutions, but it did not do so. In any event, the analysis of the cost experience of institutions of higher education set forth in this Carnegie report is the best one available at the present time.

In its policy statement published in October, 1973, entitled *The Management and Financing of Colleges*, the Committee for Economic Development by implication urged a reduction in cost increases when it advocated better long-range planning, clarification of management authority, and new modes of instruction. The Committee stated that "the principal source of possible savings lies in instruction." On the other hand, the report of the National Commission on the Financing of Postsecondary Education said nothing about the cost pressures in higher education except to urge a national standard procedure for determining per student cost, presumably of instruction.

It will be noted from the data I have presented earlier that the expenditures of higher education increased nearly 14 times between 1950 and 1974. Over these same years, enrollment increased about three times, and the consumer price index increased about 90 percent. This means that when adjusted in terms of the consumer price index, the expenditures of 1974 amounted to some 15 billion dollars in comparison with 1950 expenditures. This is still an increase of some 6.5 times.

If we confine our analysis just to instructional expenditures, we find that these increased by about 12 times in dollar amounts, or some six times in terms of dollars discounted for changes in the consumer price index. These data show that expenditures increased twice as rapidly as enrollments in the 24 year period. Insofar as real purchasing power is concerned, the data for faculty salaries at various kinds of institutions which I have examined indicate that these salaries were some 70 to 100 percent higher in 1974 than in 1950.

There is no question but that the gains in faculty salaries achieved between 1958 and 1968 have been seriously eroded by the rate of inflation since 1968, and especially by the nearly nine percent rate of inflation in the calendar year 1973. Nonetheless, substantial improvement has been made in faculty salaries over the past 24 years. Personally, I believe these changes were needed and justified. At the same time, if the findings of a study for the Carnegie Commission by June O'Neill are correct, these faculty salary increases were accomplished by a redistribution of income in our economy and not by any increase in the productivity of the instructional process.

COSTS WILL BARELY KEEP PACE WITH INFLATION

I do not wish here to debate the merits of the present structure of instructional costs in our colleges and universities. I wish only to point out that expenditure requirements fix income requirements, even as available income determines actual expenditure levels. My own judgment is that in the remaining years of this decade faculty salaries and other costs of higher education will barely keep pace with inflation, and that in terms of the Carnegie Commission projections for

1981 higher education expenditures may well fall short of a 10 billion dollar gain over 1971 in dollars of 1971 purchasing power.

A second major concern in the financing of higher education is the gap which exists between the tuition charges of public higher education and the tuition charges of private higher education. The magnitude and the implications of this gap were brought up for public discussion by the Carnegie Commission report of June 1973 entitled *Higher Education: Who Pays? Who Benefits? Who Should Pay?* and by the CED policy statement of October 1973. The gap was also mentioned in the report of the National Commission on the Financing of Postsecondary Education. On the average, tuitions in private institutions are five times as large as tuitions in public institutions. When the difference is that between 600 dollars a year and 3,000 dollars a year, the gap becomes a matter of major economic importance.

Private colleges and universities as a group began to lose enrollment in the United States in 1970. And between 1965 and 1970 the enrollment expansion of private higher education had slowed to three percent, then two percent, and then to no growth at all. The great increase in public higher education facilities and the low tuition charge of public higher education have been given as the primary explanations for this lack of enrollment growth and for this actual enrollment loss. Although other factors may also be at work in this situation, it seems likely that economic motivation has been a force for enrollment limitation upon the private institutions. And dependent as it is upon tuition charges for about 70 or 75 percent of its instructional income, private higher education has encountered financial distress as a result of enrollment limitation.

The difficulty of course is that of deciding what to do about this situation. Both the Carnegie Commission and the CED recommended an increase in the tuition charges of public institutions. This proposal has been strongly opposed by almost all state university presidents, has been opposed by some governors, and has been strongly opposed by at least one influential member of the House of Representatives in Washington. Because of this opposition and because of a reluctance to engage in battle with the state university presidents, private college and university presidents have been very slow to endorse the Carnegie Commission and CED recommendations. Instead, the private institutions of higher education have turned to the federal government and to state governments for public financial assistance.

This brings me to the third major area of concern at the present time: the dilemma whether to seek public financial support for students or for institutions. At the outset of a brief review of this choice, let me emphasize that there is a substantial difference between governmental support of students and governmental support of institutions. For example, increased public spending for financial assistance to students will not provide increased income to a college or university, public or private, unless the institution increases its enrollment or increases its tuition charges.

The tradition of public higher education in this country going all the way back to the Morrill Act of 1862 has been one of state government financial support of institutions. Such support, coupled with low tuition charges to students, has been the basis of operation for public higher education for more than a century. In the past 25 years in particular, this tradition has come under increased scrutiny and criticism for several reasons. Tuition is only one part of the cost of higher education to a student. When a state university is located in a small urban community some distance from a large metropolitan area, the cost of living away from home is a major expense for a student. Moreover, the largest cost to a student is the income foregone while he or she is engaged in study rather than in work. And then public universities had to increase their charges to students as presidents decided that public support of their institutions was inadequate. For all of these reasons, state university presidents, like private college and university presidents, have become interested in public support of students.

Obviously, as their tuition charges become higher and higher, private institutions have become ever more concerned to have adequate public support of students from lower and even middle income families. Except for the veterans legislation which goes back to 1944, the federal government began its interest in student financial assistance with the enactment of the National Defense Act of 1958, followed by legislation for guaranteed student loans, work-study grants, basic educational opportunity grants, and supplementary educational opportunity grants. And there are now about 35 states with student financial assistance programs, one of the most interesting and one probably of the most benefit to private higher education being the one just enacted in New York this spring.

"SHOULD WE FINANCE STUDENTS OR INSTITUTIONS?"

It seems to me that the major contribution of the report of the National Commission on the Financing of Postsecondary Education is the information it provides about this dilemma between the financing of students and the financing of institutions. By the use of the technique of an analytical model, this report says that if the objective is to increase access to higher education for additional students in our society, this objective will be achieved by a further financing of students rather than by a further financing of institutions.

Finally, we must face the issue of just how are our institutions of higher education to obtain the additional income they need, income to meet the ravages of inflation and to bring about some additional improvement in quality. I am assuming here that if there are increases in enrollment there will be appropriate increases in income within the present system. This is not an entirely adequate assumption, but it will do for our purposes here. Where do our institutions, public and private, obtain the additional income?

The answer I think is clear. The additional income will have to come from the three traditional sources of income: government, the student, and philanthropy. The real question is not the source of additional income but the relative roles of these three customary sources. Both public and private institutions are busy cultivating philanthropic giving, and this is entirely appropriate. Private institutions are reluctant to increase their tuition charges much beyond present levels, and I think this reluctance is both understandable and necessary. Public universities are opposed to increasing their student charges, but as the public financing of students gains momentum in this country I think they will have no choice but to do so. Insofar as government is concerned, we need further federal support of research and some stabilization of support for graduate students, in addition to full-funding of student aid programs. Insofar as state governments are concerned, we need further support of both students and of institutions.

The prescription is easy. The doing is entirely another matter. The record of our state governments in support of higher education has been outstanding, and I hope it will continue. The record of the federal government in recent years leaves something to be desired, but this too may change in the near future. Financing higher education has always been difficult, and it will continue to be difficult in the years ahead. As an eternal optimist, I refuse to despair.

Dr. Lawrence directed the National Commission on the Financing of Postsecondary Education and is now Director of the National Center for Higher Education Management Systems (NCHEMS) at WICHE (Western Interstate Compact for Higher Education).

The National Commission on the Financing of Postsecondary Education: A Review

Remarks by
Ben Lawrence

Just because some institutions were failing, just because some institutions had deficits, just because some institutions evidenced a deterioration of the quality, of faculty salaries, of the things we hold dear, did not mean that the whole enterprise was in financial distress . . .

The report of the National Commission on the Financing of Postsecondary Education perhaps does not fill the expectations of everybody, and, in order to try to bring expectations in line with what has actually happened, I would like first to give you a bit of background concerning the purposes of the Commission's report from its point of view. Second, I would like to talk to you about the findings. And third, I'll discuss some implications of the report for our ongoing activities. Last, I'll add some personal opinions.

The legislation creating the Commission arose from Congressional debates in 1970, '71 and '72. There were many debates, but one of those debates centered around the question of whether there was financial distress among institutions of higher education—whether there was need for a larger federal initiative in postsecondary education. The attempts of Congress to get responses from the higher education community at that time were thwarted by the lack of capability on the part of institutions of higher education to respond to Congressional leaders in what they considered a reasonable fashion. Institutions did not have the facts, or when they did have facts, other presidents and other national leaders would come along with other contraditory facts. In the closing hours of the debates of the Higher Educational Amendments of 1972, the Congressional leaders said, "Let's not go through another round of this next year; we have concluded what we are going to do now, but let's start now to lay the base for having appropriate information as we discuss financing issues in the future."

IMPACT OF ALTERNATIVE FINANCING PLANS

While the charge to the National Commission was broad and allowed them to do almost anything they wanted to do, there were a number of things that became very clear as we talked to Congressional leaders on the hill, about the charge. One of the things they did not want was the opinion of 17 Commissioners about how to finance postsecondary education. They argued, "We have had the opinion of people on how to finance postsecondary education for the past two years and are fed up to here with it. We would like some facts about what will happen if we choose to go in the direction of one of those opinion leaders and what will be the impact on postsecondary education." This position on the part of Congressional leaders and on the part of the Commissioners led the Commission to focus on the question, "What are the potential results of implementing alternative financing proposals?"—and that was its main thrust. The Congress was tired of people proposing things without indicating what would happen. This Commission was charged with the task of looking at financing proposals that had been put forward and trying to predict what would be the results seven and ten years in the future. Congressmen also asked the Commission to dream up new proposals and see if they could come up with better solutions than others had proposed, but they did not want the Commission to come up with a preferred alternative.

The debate as to whether the Commission was going to come up with a preferred alternative theoretically was settled in January 1973, by a unanimous vote by the Commission saying, "No, we will not come up with a preferred alternative unless the evidence is so clear that we can all agree—not just that we agree in the opinion that we should put forward—but that we can agree we can take the evidence we have and go before Congress to argue with a great deal of certainty that this is the correct thing to do." In February, of course, we debated it again; in March we debated it again, and so on throughout the year. We debated it again in December, four hours before signing off on the report.

As you are aware, there were three or four individuals who, in spite of the Commission's philosophical position, wanted to indicate a preferred alternative. They were allowed to put their preferred alternative in the back of the report, and it is there for the record. I think that perhaps I can estimate what the Commission would have done if they had decided to come up with a preferred alternative; some would have opted for something like the statement provided by Ernest L. Boyer

(Chancellor of the State University of New York)—or something like the statement provided by myself at AAHE (American Association for Higher Education) in March. Essentially the Commissioners were inclined toward maintaining low tuition, toward devising student financial assistance programs that would be more open to students attending private institutions, and toward finding other means of closing the tuition gap in order to make private institutions more viable. Our findings do suggest that such a fiddling or tinkering with the financing mechanisms would make it possible for the "privates" to have a fair chance to compete while at the same time maintaining reasonably low tuition.

A NEED TO DEVELOP A FINANCIAL MODEL FOR POSTSECONDARY EDUCATION

Another purpose behind the Commission's efforts was to try laying out a methodology as an example for people who are concerned with policy analysis in postsecondary education relative to financing. The Congressional leaders, in particular, feel that there should be some sort of economic theory for higher education that will enable us to understand more completely the intricacies of financing postsecondary education. Such an economic theory does not now exist. It can be developed only by first wrestling with the micro-economic issues, by studying ways in which you relate these very intricate financing policies and behaviors in a systematic way and eventually, over time, by developing some kind of economic understanding of postsecondary education. Consequently, the Commission directed the staff to look very hard at analytical modeling to express the financing principles involved in postsecondary education, and this we attempted to do.

The Commission did not look upon its work as final. They did not think it would be final in January and they knew it wasn't in December. But they were trying to do something different from what other commissions had done. They did not want to duplicate that good work, but rather wanted to add something new to the array of understanding we already had. The analytical model development that the Commission put forward was very primitive indeed. Some of the staff members were a little bit discouraged. The staff felt they had done a better job of understanding the interactions between institutions and students and had understood the institutional behavior and had described it more accurately than the Commission and I felt they had done. In the end, the model assumptions that were applied to institutional behavior were ruled out by myself and the Commission because we could not accept them, and the staff felt very disillusioned. Yet, the staff should feel encouraged and rewarded because their work has been picked up and is being moved forward now very rapidly by other people who understand these techniques. The institutional behavior characteristics necessary to understanding the economics of higher education are being developed rather rapidly.

One of the major outcomes of the Commission's work is that there now are at least three developments going on in a research fashion similar to that which the Commission started. One is in the Assistant Secretary's Office in HEW under a contract with Stanford Research Institute, a second is under the Office of Programs Planning and Evaluation in the Office of Education under a grant to the National Center for Higher Education Management Systems, and the third, I think, is under the direction of Dave Mundell from the Committee for Economic Development. Substantial improvements in the understanding of the economics of higher education have already been gained since January of 1974—so we are pleased with the impetus and the initiatives that have been created as a result of the Commission's efforts.

A word about the findings. The Commissioners thought it essential to start with objectives. They reviewed objectives of past commissions. One interesting thing is that in 1948 Harry Truman appointed a commission. If we go back and look at the objectives for that commission and look at the objectives that the National Commission on Financing of Postsecondary Education came up with in 1973, we find an almost complete parallel except for the one objective of accountability which has been added. But, back in 1948, this country apparently had had recommended to it by a national commission objectives almost identical with those recommended to it in 1972.

"WE'RE REALLY TALKING ABOUT INCOME, NOT ACCESS"

Another word about objectives: objectives are in the mind of the beholder, when it gets down to discussions at the federal level. One thing that becomes obvious as you listen to testimony before the Congressional committees is that, while we may be talking about student financial assistance in order to accomplish student access, we essentially are talking about income. As you listen to the testimony of a president of a major institution, he may be talking about student access, but if you listen to what he is trying to do, he really is talking about institutional income. And as you talk to middle-class

Americans who are testifying before these committees, they are talking about student access, but the middle-class Americans essentially are talking about income alleviation—"If I send my kid to college at my expense, I am not going to be able to buy my camper next year, and I worked very hard to be able to buy my camper, and I do not see why I have to give up my camper in order for my kid to go to college." If you are talking to low-income people, they are talking about getting equal opportunity to get into the place. And so, even though we may state national objectives—student access, student choice, institutional independence, all of those objectives—when it gets down to the debate over the nitty gritties of the financing of postsecondary education, a whole array of other objectives comes to bear on what we actually are going to decide and how the votes are cast. The trick of modeling is not only to tell you what is going to happen to the objectives that we may choose as a nation, but also to understand how the votes are going to come out when taking into account the total interaction of the objectives of the people who call the shots. It is very difficult to do.

Income alleviation among the middle-income groups is a major issue today and we must recognize that. If you listen to the words of Congressman Jim O'Hara (Chairman of the House Special Subcommittee on Education) you can hear this issue coming through very strongly—"Equity will be achieved when my income level is not seriously depleted by virtue of the decision of my son or daughter to go to college." That is a major issue. When you consider the perplexity of these objectives in the minds of the students, the parents, the Congressional leaders, and the poor, you recognize that we are not so much talking about objectives that the National Commission laid down but about a lot of individual objectives that are very hard to get a handle on.

A second finding relates to unit costs. As you are aware, the legislation required that the Commission develop uniform standard procedures for developing costs, though the Commission and I were under the assumption that we would be able to question the advisability of doing such a thing. In fact, we spent two or three months looking at whether national uniform standards ought to be developed because we understood that we could do this. In August, 1973 we were informed clearly by Congressional leaders that that was not the question which was posed. They had debated whether there should be standards and we were not even asked that question—it was out-of-bounds for us. Our charge was not the question whether there should be national uniform standards, but rather what they should be. So we had to backtrack and do some additional work to develop a set of suggested uniform standards. Since the law did use the word "suggested," we used it also because there was no strong conviction on the part of the majority of the Commissioners or our staff that these standards should indeed be nationally imposed upon institutions of higher education.

"UNIT COST" BECAME A SYMBOL OF ACCOUNTABILITY

I should give you some explanation of the background here. At the outset of the year it was clear that most Congressmen felt that national uniform standards for costing should be imposed upon institutions of higher education because when they were asking for cost information they could not get it—and they thought it was reasonable to be able to get this cost information. They thought it was reasonable also to expect institutions to be managed well enough that they knew what it cost them to do something. After we had discussions with Congressional leaders and showed them that a unit cost number was not a very powerful kind of number in terms of explaining the financing situation of an institution, they said, "Oh, all right we understand." We made the assumption that when they understood it was not a very powerful number and that other numbers and other pieces of information would be more valuable, that we then could go ahead and question whether uniform standards should be developed. But it turns out that in the minds of many laymen and of many state legislators and Congressmen, unit cost information, for lack of any other information, was a symbol of accountability and the question at issue was whether institutions of higher education were going to try to be accountable to state and federal governments for the dollars they received. And, for lack of any other symbol, Congress did not wish this Commission to back off the question of unit cost procedures. Consequently, the unit cost procedures were put forward as suggested.

We assured most of them that institutions were working on these very, very hard and that the information would come forward in due time without national standards being imposed. I can assure you today that at the rate it is going, I am confident the information will be available. Last year some 70 institutions implemented the National Center for Higher Education Management Systems Information Exchange Procedures which includes unit costs, and this provided an array of information such as you have never before seen available to state legislators and put into the public domain. Our early expectations are that somewhere between 500 and 800 institutions of higher education will be implementing the Information Exchange Procedures and, hopefully, completing them before December of 1975. (This is a result of a survey we have just sent out.)

I believe that appropriate information relative to the financing of higher education will be forthcoming from institutions of higher education within the next two or three years without the imposition of national standards. I believe the information will be compatible, because institutions have gotten together and are pulling together to ensure that it happens, and I do not believe it will require a federal law to make it happen anymore. On the other hand, to those of you who are present in this room, I would hasten to add, "Don't back off," because if you do, the Congressional leaders and the state legislators are going to come down very hard. I think they have learned that unit cost information is perhaps "one of the least useful numbers" we can have—and that other information is more desirable.

Financial distress, cost pressures—the Commission was directed to look at these subjects specifically. We spent many hours and many days discussing financial distress. Hans Jenny, who was noted for his work in this area, led our study team in this direction. Chapter 5 of the Commission's report is devoted to it. The difficulty in this area was to find measures that were politically and technically acceptable for demonstrating the nature of financial distress. We have come up with the beginnings of a set of structures or a framework for measures and the work has gone far beyond this now under the efforts of Hans Jenny at Wooster, Ohio. We believe the work that the Commission began in identifying financial distress in a direct way will result in payoff in the near future.

ONLY SOME SECTORS ARE IN SEVERE FINANCIAL DISTRESS

But, from the evidence available to us at the time we closed down that study, we could not agree that there was financial distress as a national enterprise. Just because some institutions were failing, just because some institutions had deficits, just because some institutions evidenced a deterioration of the quality, of faculty salaries, of the things we hold dear, did not mean that the whole enterprise was in financial distress. And clearly, we did not feel that the financial distress was so severe that the objectives we had specified were in trouble. On the other hand, we did feel there was clear evidence that some sectors of higher education were in severe financial distress and we identified two in particular: the private liberal arts colleges, and the major public research universities. We felt both of those were in trouble and our continuing observation of the scene suggests that our predictions are still right. Unless some major shift in public policy comes along, the major public research universities and the four-year private liberal arts institutions are going to be in severe trouble in the next four or five years. The two-year private institutions are in such financial trouble that, apart from a special program to bail them out, I don't know what the solution is. They are in such severe financial depression that I suspect that large numbers of them will continue to close and that very soon, we may not see them around.

What are the implications of this report for our future planning? First, that those who propose financial policies in the future, at least to federal government and to most state governments, are going to have to lay alongside their proposals what they think will happen in the future. They are not going to be able to say, "Well, we ought to do this." They are going to have to say why they should do it and what is the expected outcome.

A second implication seems to be that state level governments will be moving into this mode of planning operations. Right now, four states are involved in the process of using a model similar to that developed by the Commission—to make financial studies of their policy alternatives which they currently are addressing. The four states currently involved are Massachusetts, Maryland, Colorado, and Washington. There are other states that are very much interested in doing this type of thing. In addition, it looks as though analysis by this approach will be used by the Congressional committees themselves. We already are deep in discussions with Representative O'Hara's committee about using this kind of analysis on the current student financial aid problem.

DIVERSITY MAKES MODELING DIFFICULT

Another implication is that we still have a long, long way to go in developing these techniques before we can rely on them with any degree of certainty because they are very, very primitive. At best, we can say we are experimenting at the current moment, particularly because trying to devise some kind of a macro-model that gives you some indication of what is going to happen in the future is difficult. But the diversity in postsecondary education makes it even more difficult, for what you might do in terms of a federal initiative that will help Massachusetts may hurt California and while it may help Ohio it may damage Florida. Consequently the study of these things requires an understanding of the policies for financing postsecondary education in every state in the Union.

I believe the Southern Regional Education Board has just completed, through the auspices of one of its staff members, a study of student financial aid in this region. I commend you for that because unless we have an understanding of the implications of these kinds of policies by region and, indeed, by state, we are not going to be able to devise good national policy. You are to be commended for having led in this direction and I hope you will urge your sister organizations to do the same thing. We need this kind of information if we are going to develop sound national policy.

A further implication I think that we all must be aware of is that the regional differences are such that a single national policy may not be possible. John Millett has just talked about the alternatives before us and it is very difficult to look at any policy put forward as a federal initiative that will respond successfully to the desires, missions, and objectives for postsecondary education in each state.

"IS EDUCATION A RIGHT OR A PRIVILEGE?"

Finally, a few personal observations. I believe that one of the major issues we have before us relative to the financing of postsecondary education today is whether public policy is going to decide if education for two years beyond the high school is a right or whether the courts are going to decide if it is a right. As you look at those states that have fostered low tuition, as you talk to their legislative leaders, and as you get down to the philosophical underpinnings that have caused them to move in the direction of a publicly-supported low-tuition enterprise, most of them are saying within their hearts that education for at least two more years is a right. I recognize that the courts have recently made decisions that suggest that education may not be a right. When you look at other states, they are saying, "We have chosen to finance postsecondary education and the offering of postsecondary education primarily through private institutions. It is up to the individual to try to get access to that system; we will give him some financial assistance, but since education is not a right we do not feel obligated to insure that it is really at stake in the discussions on student financial aid today." Is education a right or privilege? Maybe it is in between, but until we get that issue clearly settled in our minds, I think we are going to be debating about other issues when we are really debating about that one. Then, when you look at the question of whether funds should flow to postsecondary education through students or through institutions, you really come up against a dilemma.

I believe it is time that we started looking at some other alternatives. If you give funds primarily through students, you are going to play havoc with the financing structures of those states that have opted for low tuition. They will either have to change their financing structures and raise their tuition or lose out on the federal largess. If, on the other hand you give money primarily through institutions you are, because of the church-state relation problem, going to damage the private institutions and you are going to hurt those states that are predominantly private in character as far as the provisions of postsecondary education are concerned. This raises the question of whether we ought to be looking at some kind of dedicated federal revenue sharing, some kind of formula that would say money should go to the states on the condition that it be used for higher education. We have been reluctant, particularly the institutions have been reluctant, to consider these kinds of alternatives because we have assumed that the revenue would not eventually get down to institutions and that the states would use the money for other purposes.

Interestingly enough, Edith Green, back in 1970 when she was Chairman of the Subcommittee on Higher Education, asked me to see if I could stimulate the study of this particular question because she was very much concerned about needs assessment—how much money did institutions and states need in order to finance postsecondary education. Consequently, two individuals were encouraged to get busy on this; their names are Kirschling and Postweiler. They have developed a rather comprehensive study that received one or two hearings before Congress but, by the time they had completed their study, the 1972 amendments were well underway and there was no possibility of reversal. I would suggest to you now, in view of the thinking of most of the people discussing these issues, that these approaches are going to get a fair consideration in the next six to nine months—that we perhaps ought to recognize there are methods of delivering financing to postsecondary education other than just to students and to institutions.

I would like to add that Representative James O'Hara now is thinking very seriously about this. In fact, he will be conducting a seminar-type hearing with his committee to explore what could be done if there were no current federal legislation. We have come to the conclusion that new federal initiative ought to be put into action, not with the view to doing away with existing legislation but to open a debate about completely new approaches to financing postsecondary education in order to have some better plans in the future. In addition, the Office of Education, the Education Commission of the States, and other organizations have agreed to hold up to six regional seminars on the implications of the National Commission's study for statewide planning, on the assumption that the impact of this report in terms of analyses at the state level will be serious and that state coordinators and presidents of institutions ought to be aware of the implications.

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The National Commission on the Financing of Postsecondary Education: A Critique

Remarks by
Earl F. Cheit

. . . we began to assume that there is something called "student aid" which is quite different from something called "institutional aid." Not only were these seen as very different, but worse still, they were seen as conflicting, that they pay for different things, and accomplish widely different results. It became an article of belief that if you stood for one of these, you endorsed a set of values that required you to reject the other. We know that this is not the case . . .

My assignment is to present a critique of the report of the National Commission on the Financing Postsecondary Education. In the time allotted me, I will carry out that assignment first by listing in rather summary fashion, five points that I think those concerned about state policy have learned from the Commission's work. Next, I will discuss another five points, namely, what we did not learn from the Commission's work, but would have liked to.

First, what did we learn from that report?

(1) We learned that the financial problems in higher (and postsecondary) education are real, and that they are serious. In short, the reason for the creation of the Commission in the first place was well justified by the financial problems which it found. Among other things, the Commission reports that constant dollar expenditure stopped increasing during the 1960's and began to decline between 1971 and 1973.

The Commissioners reveal why it is that Congressional committees cannot obtain easy answers about financial distress—because there are none. The Commission makes clear it could find none. Instead, it uncovered conflicting views. It found that there might be a variety of somewhat imprecise answers.

But most clearly, it found that institutions are in distress. The Commission stopped just short of the judgment that the whole enterprise was in distress. It said if things continue to go the way they are now (and that "now" is more than a year old) that the situation could well become one of distress of the entire enterprise. As we know, since the Commission's report, the trends have indeed made the problem worse. At the time of the Commission's work, inflation was perhaps 6 to 7 percent. Now, depending on which index one uses, it is somewhere between 12 to 14 percent. So, to repeat, the first thing we learn from the report is that the financial problem is serious.

(2) The second thing we learn from the Commission's report is that education after high school is an extraordinarily complex enterprise. It is not a "system," but a complex of institutions with a wide variety of methods, activities, styles, and goals. The first 130 or so pages of the report provide a very good snapshot (and that's really what it is) of a moment in the life of this complex set of activities. Despite its vast collection of data, the Commission cannot tell us precisely how many students are in the non-collegiate postsecondary sector. It did do better than anyone else has done to date, however. The Commission did not say it quite this way, but what it shows is the result of the pattern of development of higher education in this country—from private philanthropy to the "state era" coming after the establishment of land-grant institutions in the 1860's, up through post World War II and the great "federal era." It started with a private era, moved into a great state era, and then came the great federal initiative.

In short, our "system" has grown from the bottom up. The federal government has been very wise in restricting its role to special purposes, becoming an entrepreneur only where military and very limited kinds of education are concerned. As a result, the states have had the major responsibility for planning, operating and supporting higher education. But in fact we do not have a system—we have a highly complex series of arrangements that no one has ever even fully counted before.

There can be no single view, no single approach, to the problems of these institutions. There is a wide variety of approaches, some in competition, some of them in contradiction. I think the Commission did an important job in revealing to Congress why it is that they get the kind of advice that they do—why they encounter conflicts. This is a very important finding, supported by useful and interesting data on the complex enterprise.

(3) Third, we learn from the Commission's report that an

important way to approach the financial problem of this complex enterprise is to think in terms of choices. During the recent rapid growth in higher education, we thought in terms of "trading up." Now, the Commission in effect says, we must begin to think more in terms of "trading off."

CHOICE AMONG PARTIALLY CONFLICTING OBJECTIVES

There is a big difference between trading up and trading off, and the Commission tried to alert our thinking to this difference. The way it did this, was to list in the great middle section of the report a series of eight national objectives of higher education. These are (without elaboration here) access, choice, opportunity, diversity, institutional excellence, institutional independence, institutional accountability, and adequacy of financial support. Clearly, a thoughtful reading, or even just a quick reading, will indicate that these objectives are partially conflicting. We cannot achieve all at the same time. Some must be sacrificed or modified. Given our limited resources, we must choose from among partially conflicting objectives. So far, so good. But the Commission got into trouble when it tried to indicate that the choice might be made by a system. I'll come back to that shortly. So, to repeat, our third lesson is to think in terms of choices.

(4) Now to the fourth finding. Here we learn from the Commission that in addition to choice, another way to think of economizing is to pay attention to unit cost. This was a line of thought developed in response to legislative mandate, and I think the Commission responded thoroughly. It made the case that one can use unit cost information to good purpose. That is certainly true within institutions, and to a lesser degree, between similar institutions. The Commission got into trouble, not because of the work of its staff, but because it responded faithfully to its mandate. It went so far as to say that unit cost information could be gathered and used on a national level, on some standardized basis. Thinking in terms of unit cost can be valuable. It is useful for institutions to look at themselves this way. But to move this exercise up to a national level would be foolhardy. Fortunately, that idea did not attract support and now seems inert.

(5) The fifth thing the Commission taught us is something not to do, something that ought not to be tried. We learned from the Commission's work (as Ben Lawrence has just revealed in his remarks) that policy decisions about finance cannot be made by analyzing models about impact, unless there is some prior theory about what it is you want to do in

the first place. And without such a theory, unit costs, no matter how they are handled, cannot be translated into public policy. Systems and cost data are a good basis for institutional management. They are a good basis for insight, but not by themselves a basis for public policy. I will return to these points when I look at the other side of the ledger.

U.S. Commissioner of Education John R. Ottina said much the same thing to the Congress when, as required by the legislation, he made his report on the report. He noted that the Commission's treatment of both the systems question and the unit cost question stimulated a great deal of debate about how to use these devices. That debate itself, he said, might well be one of the most important products of the Commission's work. Commissioner Ottina said to the Congress, "Perhaps the most important result of the Commission's efforts is the debate that was generated among those interested in higher education finance."

I believe, in summary, that the debate reveals five points: (1) the financial problem is serious; (2) education beyond the high school is an extraordinarily complex enterprise; (3) an important approach to financing this complex set of institutions is to think in terms of choice; (4) another approach to economizing is to use unit costs; and finally (5) policy decisions about finance cannot be made from analytical models without a prior theory: unit costs cannot be translated into public policy, although they are valuable to institutional management.

Now, let's turn to the other side. What did the report fail to do? What is it that we did not learn from the Commission? Here again I have five points.

"THE PRESENT SITUATION ON LOANS IS A MESS"

(1) The first thing we did not get from the Commission's work is a direct approach to the major current problems of federal policy. The Commission did not deal directly with federal policy—only indirectly. There may have been good reasons, for as Ben Lawrence mentioned, some members of the Commission said they were tired of hearing about what "ought to be done." So they dealt with policy indirectly by listing federal objectives and then speaking in terms of choice. That, as I said earlier, is a valuable pedagogical device and a good way to structure our thinking, but there is a history here. And from that history there are certain problems that we face currently. There are policy issues that need to be confronted because they affect us today and will tomorrow. The Commis-

sion did not, among other things, deal with the policy of equal opportunity. It mentioned access, and it provided good data on what the access problem is. But the Commission does not tell what it is that ought to be done at the federal level about seeing that the policy is carried out more effectively than it now is.

In addition, there is the question of student financial aid—especially the serious problem of loans. The present situation on loans is a mess. But the Commission did not try to straighten the mess out, or at least suggest how to improve the situation.

The Commission's recommendations do not directly encourage private philanthropy. That is strange for it did present important evidence on the importance of private philanthropy, and spoke favorably about it. The Commission could have used its work to inform some of the people in the Congress who are trying to pass legislation to make philanthropy more difficult.

Another example of a policy question avoided is that of the instability of federal policy. I distinguish here the purpose of the policy—its long-term end—from its stability. On campuses, it is a sadly-felt fact that federal policy has been unstable with respect to science, medicine, and graduate education. That instability has hurt our research universities, both public and private. The up-and-down pattern of funding combined with the changing of objectives has given our institutions confusing signals. Policy toward public health is a recent case in point. When public health institutions respond to these mixed signals, they reap the worst of various theories and approaches. There are many other examples. So, to sum up, the first thing we did not get from the report was a coming to grips with the problem of present-day federal policy.

"ARE STUDENT AID AND INSTITUTIONAL AID CONFLICTING?"

(2) Second on my list of five things the Commission did not do, but should have done, is to advance the discussion on the question of student aid versus institutional aid. The fact that this must be called a problem shows how intelligent, sophisticated people can become victims of their own preconceptions and even their own language. At the time the Higher Education Amendments of 1972 were being debated, we began to assume that there is something called "student aid" which is quite different from something called "institutional aid." Not only were these seen as very different, but worse still,

they were seen as conflicting, that they pay for different things, and accomplish widely different results. It became an article of belief that if you stood for one of these, you endorsed a set of values that required you to reject the other.

We know that this is not the case. What we need is some leadership on this matter to help us out of this situation. The Commission had very good people on it and could have made a solid contribution to the thought in this area. Ben has told us his views on this subject. They are very good. I am sorry he did not prevail, because we needed good leadership to help reconcile these issues.

We know that students go to institutions and that their tuition does not pay the entire cost of running those institutions. Look at the data that John Millett provided earlier this morning; he shows clearly that it costs more than tuition to run these institutions. The way the Commission leaned somewhat more heavily towards federal money going through the students may be quite commendable, or it may be arguable. But it does not follow that some funding through the institutions should not go with it. We must recognize institutional needs as a matter of policy and that students will be the first to suffer if these institutional needs are not met. That is the second thing we did not get from the Commission report.

(3) A third thing we did not get from the Commission was some effort to guide the federal government toward giving better signals to the states about coordinating federal student aid and state student aid programs. The SREB report handed us at this meeting shows how vital that issue is in this region. The same is true of all other parts of the country. Yet, there is serious confusion. There are dozens of student aid programs in the states. The states, quite understandably, tend to be unsure as to how to relate their programs to federal programs. I am told by financial aid officers and state scholarship and loan commissioners that they are confused. If they are confused, imagine how confused a student and his parents must be. The basic student aid commitment is federal. The states must work around it. Thus a clear signal from the federal government about what it is going to do and how the states should relate is important, but still missing.

Significantly, there is a big project just underway under the leadership of a state scholarship commission officer, financed by private foundations, to try to find how better to coordinate this effort. It reveals the role of private philanthropy, and why it should be encouraged.

(4) A fourth thing the National Commission on Financing Postsecondary Education did not do was to give a signal about

the long-run federal role in financing postsecondary education. I do not mean a blueprint, or an agenda—just a signal. As John Millett's figures show, the federal role has been declining. Depending on the base and the figures used, two-thirds of the public money now comes from state and local government, and about one-third from the federal government. The Carnegie Commission advocates that, to achieve various desirable objectives for higher education, a 50-50 role (federal and state) ought to be the long-run goal. One may argue about that split, but it is an item that ought to be on the agenda. This bears on the point I mentioned earlier. There is a need for clear signals from the federal government—about its role, about stability, about the things that have been plaguing the institutions. I wish that the Commission would have at least opened up the question.

EDUCATION WILL RETURN TO THE TOP OF THE FEDERAL AGENDA

(5) Finally, the fifth thing that we did not get from the Commission was discussion on the important issues just ahead, not yet totally upon us, but issues on which we need to do some advance thinking. These include some of the points Ben made at the end of his remarks. For example, we now know that higher education has become too expensive for current payment. We are now experimenting extensively, and not very successfully, with "post payment." But our loan programs are in a mess. Isn't it inevitable that we are going to move to some form of prepayment? I think it is inevitable, and that federal participation will be an important part of the program. The main thing ahead of this on the federal agenda is health. As long as the trade unions have the muscle in determining the agenda on this matter, health will come before education. But within a year or two the health provision will be adopted by Congress. Education will follow, and we ought to be getting ready.

Another example of long-term issues that the Commission could have helped with is the question of the more intelligent use of incentive grants to the states. Ben discussed this matter earlier. There is also the revenue-sharing program. No one I know regards it as an unqualified success. People are able to restrain their enthusiasm for it. But the theory is a good one. And in education—where we have some experience—it could be a particularly effective device for intelligent federal participation, but the issue was not opened up. So that sums up my five quibbles.

In summary, I would say that the Commission did provide some extraordinarily useful data. The Commission has stimulated institutions in the areas Ben mentioned. It stimulated thought on the issue of cost measurement. The Commission's analysis and the debate that it generated taught us what we ought not to do at the federal level. It not only helped educate those of us in academic institutions, I believe it educated people in Congress as well. I think, finally, that the Commission taught us that there is no easy way to get at policy issues through systems. Systems do not precede theory and objectives; they must follow. They are intended to implement theory. One conclusion from all this is that the messy methods which chancellors and presidents and faculty committees and legislators and governors go through in making public policy are still the key. These are the processes that translate the aspirations of people for education into institutional realities. This process is the way we set goals and get people to reach for them. Having done that, systems will tell us a little more about our decisions. But they won't tell us how to get there in the first place. That lesson from the Commission learned, we should now be ready to proceed. Good luck.